



OFFICE OF THE  
**STATE AUDITOR**

Comment Period: In an effort to make our publications accurate and useful to our intended audience, we invite individuals who work for and with local government entities to read this draft and provide comment. The comment period will last 30 days. Comments should be submitted to Jeremy Walker at [jeremywalker@utah.gov](mailto:jeremywalker@utah.gov) by **Aug 16, 2019**.

## **Auditor Alert 2019-01 Draft**

**Date:** July 16, 2019

**Subject:** Source of GAAP for Charter Schools

### **Introduction**

The Office of the State Auditor (Office) was asked by the Office of the Utah State Board of Education to provide guidance with respect to the correct source of Generally Accepted Accounting Principles (GAAP) for charter schools.

### **Analysis of Laws and Standards**

#### **Professional Accounting Standards:**

According to the American Institute of Certified Public Accountants (AICPA)<sup>1</sup>, organizations meet the criteria for governmental accounting, financial reporting, and auditing purposes based solely on the application of any of the following:

- Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments,
- The potential for unilateral dissolution by a government with the net assets reverting to a government, or
- The power to enact and enforce a tax levy.

The fact that an entity is incorporated as a not-for-profit organization and exempt from federal income taxation under the provisions of IRC Section 501 is not a criterion in determining whether an organization meets the criteria for governmental accounting, financial reporting, and auditing purposes.

#### **State Statute:**

State statute recognizes all charter schools as public schools and part of the state public education system. Also, charter schools are under the control of a governmental entity as to:

1. *Creation and termination of the school's charter.* Utah Code Section 53G-5-503 specifically allows a charter school authorizer to terminate the charter agreement for not meeting requirements, not meeting standards, low performance, failure to improve, violations of code or other laws, and other good cause.
2. *The disposition of the school's assets upon dissolution.* Utah Code Section 53G-5-504 states "a closing charter school shall return any assets remaining, after all liabilities and obligations of the closing charter school are paid or discharged, to the closing charter school's authorizer." This statute also stipulates "the closing charter school's authorizer shall oversee liquidation of assets and payment of debt in accordance with state board rule."

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<sup>1</sup> AICPA *Audit and Accounting Guide for State and Local Governments* 1.01, 1.02

**State Charter School Board (SCSB) Agreement:**

In the case of any charter school termination, agreements with the SCSB contain a presumption that, school property will revert to the SCSB after the settlement of all outstanding obligations.

**Conclusion**

State statute and SCSB charter agreements contain requirements that meet the criteria for governmental accounting, financial reporting, and auditing. Thus, all Utah charter schools, regardless of legal form, must follow accounting standards promulgated by the Government Accounting Standards Board (GASB).

**Implementation**

The Office would prefer that charter school financial statements for fiscal years ending 2019 and 2020 be presented and audited in accordance with GASB. However, it will not be required until the performance of fiscal year 2021 audits and thereafter.